

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7654

Petition of Village of Lyndonville Electric)
Department, pursuant to 30 V.S.A. § 108(c) for)
authority to issue long-term debt for the)
purchase of equipment for the new 115 kV)
substation in Lyndon, Vermont)

Order entered: 8/26/2010

I. INTRODUCTION

On July 13, 2010, the Village of Lyndonville Electric Department ("LED") filed a petition (the "Petition") with the Vermont Public Service Board ("Board") for approval pursuant to 30 V.S.A. § 108(c) to finance up to \$1.643 million through the Vermont Bond Bank ("Bond Bank") to pay for the cost of certain equipment to be installed at a new 115 kV substation in Lyndon, Vermont. The Petition was supported by the testimony of Clay Bailey, LED's Financial Manager.

On August 11, 2010, the Vermont Department of Public Service ("Department") filed its Determination Under 30 V.S.A. § 202(f) finding that the issuance of long-term debt as set forth in the Petition is consistent with the *Vermont Electric Plan* pursuant to 30 V.S.A. § 202(f). In a separate filing submitted on August 11, 2010, the DPS recommended that the Board approve the Petition without hearing.

I have reviewed the Petition and the supporting testimony. I conclude that approval of LED's Petition pursuant to 30 V.S.A. § 108(c) is appropriate and that such approval may occur without hearing. Based upon the evidence of record, including the DPS letters of August 11, 2010, I hereby report the following findings and conclusion to the Board in accordance with 30 V.S.A. § 8.

II. FINDINGS

1. LED operates a municipal distribution utility serving approximately 5,600 customers in eleven towns in Caledonia County, Vermont. Petition at 1.
2. LED received a Certificate of Public Good ("CPG") in Docket 7562 to construct, own, and operate certain facilities in connection with the Vermont Electric Power Company, Inc., and Vermont Transco LLC (collectively, "VELCO") 115 kV substation, currently under construction in Lyndon, Vermont. Petition at 1.
3. LED requests Board approval to finance up to \$1.643 million through the Bond Bank to pay for its portion of the cost of certain equipment ("Exclusive Facilities") for the VELCO substation. VELCO's Federal Energy Regulatory Commission ("FERC") tariff (First Revised Rate Schedule No. 7) requires the interconnecting distribution utilities to pay the cost of Exclusive Facilities. Petition at 1; Clay pf. at 3.
4. VELCO estimates the cost of LED's Exclusive Facilities for the substation to be \$1.643 million. Clay pf. at 3.
5. Through the Vermont Bond Bank, LED intends to participate in a federal program offering Recovery Zone Economic Development Bonds ("RZ Bonds") which are taxable bonds for which the federal government rebates 45% of the interest payments. This program, which was part of the federal stimulus package, will end, by its terms, on December 31, 2010. The Bond Bank is planning another issuance of these bonds near the end of this year and has encouraged LED to apply. Petition at 1-2; Bailey pf. at 4.
6. The RZ Bonds are LED's preferred financing vehicle because these bonds would be the lowest cost to LED. The anticipated interest rate, after the interest rebate, is approximately 2.6% fixed for 20 years. Bailey pf. at 4.
7. In the event that the RZ Bonds are unavailable in December, 2010, LED plans to join the Bond Bank's next tax-exempt bond issuance, which is scheduled for June, 2011. The Bond Bank has estimated the interest rate for that issuance to be approximately 3.7% fixed for 20 years. The actual interest rate will be set at the time the bonds are issued. In the interim, LED would pay VELCO for the Exclusive Facilities costs with short-term financing provided by a consortium of local banks at an interest rate of 2.72% until the June 2011 issuance. Bailey pf. at 4-5.

8. Because of the overall economic benefits of the VELCO substation for LED, the current projections are that, even including the cost of repayment of this financing and payment of "Specific Facility"¹ carrying costs for the first 10 years of operation, the impact on LED's cost of service will be a cumulative reduction in costs of approximately \$850,000. With the slightly higher interest rate of the tax-exempt bonds, the 10-year cumulative savings are anticipated to be \$720,000, compared to expected transmission costs without the new substation. Clay pf. at 5.

9. The final cost of the Exclusive Facilities may differ from the projected amount of \$1.643 million. If the final amount is slightly less, LED will use the excess funds for other capital improvements. If the final cost is slightly greater, LED will make up the difference using internally generated funds. Clay pf. at 6.

III. DISCUSSION & CONCLUSION

Based upon the findings and the evidence in the record, I find that LED's proposed issuance of long-term debt as described above will be consistent with the general good of the State. I therefore recommend that the Board approve LED's request to issue up to \$1.643 million of bonds through the Bond Bank for Exclusive Facilities costs associated with the VELCO 115 kV substation in Lyndon, Vermont.

The parties have waived the opportunity for review of the Proposal for Decision, briefing, and oral argument, in accordance with 3 V.S.A. § 811.

Dated at Montpelier, Vermont this 25th day of August, 2010.

s/ Andrea C. McHugh
Andrea C. McHugh
Hearing Officer

1. "Specific Facilities" are defined in Article IV of the 1991 Transmission Agreement as "those high-voltage transmission lines, substations and other appurtenances constituting a direct physical interconnection to the Vermont Transco system and not constituting part of Vermont Transco's looped transmission facilities, that are requested, used, and installed to benefit a requesting Purchaser of transmission service."

IV. ORDER

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board ("Board") of the State of Vermont that:

1. The findings, conclusion and recommendation of the Hearing Officer are adopted.
2. The Board consents to the issuance by the Village of Lyndonville Electric Department ("LED") of long-term debt in an amount up to \$1.643 million in Recovery Zone Economic Development Bonds ("RZ Bonds") through the Vermont Bond Bank, or through the Vermont Bond Bank's June 2011 tax exempt issuance, if the RZ Bonds are unavailable, to fund the costs for Exclusive Facilities located at the Vermont Electric Power Company, Inc., and Vermont Transco LLC 115 kV substation in Lyndon, Vermont.
3. The Village of Lyndonville Electric Department shall not exceed, without prior Board approval, the following limitations on the terms and conditions of the proposed bond issuance:

Maximum interest ("coupon") rate:	3.7%
Maximum tranche term:	20 years
4. This Order does not constitute approval of any particular capital or operating expenditure nor the underlying capital structure that LED may implement with the proceeds from this issuance of long-term debt. Nothing in this approval shall preclude the Department of Public Service ("Department") or any other party, or the Board, from reviewing or challenging those expenditures and/or the resulting capital structure in any future proceeding.
5. LED shall inform the Board and the Department of any material change in the terms and conditions of the financing, if any, prior to closing.
6. LED shall provide the Board and the Department with a complete set of final executed documents.

Dated at Montpelier, Vermont, this 26th day of August, 2010.

<u>s/ James Volz</u>)	
)	PUBLIC SERVICE
)	
<u>s/ David C. Coen</u>)	BOARD
)	
)	OF VERMONT
<u>s/ John D. Burke</u>)	

OFFICE OF THE CLERK

FILED: August 26, 2010

ATTEST: s/ Susan M. Hudson
Clerk of the Board

Notice to Readers: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@state.vt.us)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.